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FOREIGN SERVICE DESPATCH

FROM : American Embassy, Tripoli

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TO : THE DEPARTMENT OF STATE, WASHINGTON.

July 12, 1956
DATE

REF : Embdesp 369, April 30, 1956

For Dept. Use Only	ACTION	DEPT.
	NEA-4	AMB-2 REP-2 OLI-6 E-4 IOA-1 USIA-1
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		BNA-7 OSD-4 TK-3 ARMY-4 NAVY-3 AIR-3

SUBJECT: Libyan-American Reconstruction Commission: Eleventh and Twelfth Meetings, March 28 and May 15, 1956

JOINT EMBASSY-USOM MESSAGE

The Embassy-USOM transmit as Enclosures Nos. 1 and 2 six copies each of the minutes of the eleventh and twelfth meetings of the Libyan-American Reconstruction Commission (LARC). Enclosure No. 1 includes also as Appendix No. I a program status report as of March 26, 1956, and Enclosure No. 2 includes as Appendices Nos. I, II, and III, a copy of a letter (with attachments) from the Libyan Prime Minister to the Provincial Governors (Walis), a program status report as of May 14, and a copy of a letter from the Permanent Under-Secretary of Finance to the Executive Director of LARC.

At the time of LARC's eleventh meeting, the Prime Minister was in the process of replacing both of the Cabinet Ministers (Sahli and el-Qadi) who were members of the Commission (see Despatch No. 384, May 8, 1956), but had not yet done so officially. Consequently, the Ministers were still technically members of LARC and were "represented" at the eleventh meeting by Abdel Razzaq Shaglouf, Permanent Under-Secretary of Finance and Ali Jazairy, Director-General of the Ministry of National Economy.

The twelfth meeting was the first held after the changes in membership had been completed. Shaglouf was chairman, replacing Sahli, Ahmad Khalil al-Rais, the new Director-General of the Ministry of Communications, replaced el-Qadi, and Mohamed Faituri of Cyrenaica replaced Omar Yacoub. Since Yacoub is now Deputy Executive Director of LARC, his position as a member of the Commission was somewhat anomalous. In addition, it is probable that the Cyrenaican Administration preferred to have on the Commission a representative who was a Cyrenaican official rather than a Federal official.

Comments on eleventh meeting:

1. Sir Arthur Dean's interjection concerning the minutes of the tenth meeting (paragraphs 3 through 6, Enclosure No. 1) referred to certain remarks by Mr. Gordon which were included in the draft minutes but deleted from the final version. Mr. Gordon had reported, during a discussion on the need for a survey and advance planning for low-cost housing, that the Nazir of Public Works of Cyrenaica had severely criticized the low-cost housing project built near Benghazi

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REVIEWED BY J.M. Razi DATE May 6, 1982

by the Libyan Public Development and Stabilization Agency (LPDSA) (of which Sir Arthur is General Manager). The Nazir had claimed that the dwellings were inadequate, being merely two rooms with no facilities suited to the habits of the people who were settled in them. Whether the Nazir's statement was correct or not, Sir Arthur was understandably concerned about having such a report circulated, particularly as some of LPDSA's other projects have also not turned out very well.

2. The program status report of March 26, 1956 (referred to in paragraph 14 and following) was transmitted to the Department with Despatch No. 348 of April 10, 1956. The report transmitted with the present despatch is identical with that previously transmitted except for the recapitulation sheet, which includes an additional column indicating the current status of the provincial development programs taken over by LARC. The amount involved in these programs had already been reduced by about L£ 100,000 from that first proposed by the provinces (as shown in Appendix II, Enclosure No. 2, Despatch No. 369, April 30, 1956), and will probably be further reduced in the process of reconciling the provincial programs with other LARC programs.

3. The discussion on action agencies for health and sanitation projects (paragraph 65 and following) was occasioned by the continuing effort on the part of the Federal Minister of Health to increase the prestige and power of his Ministry. He first attempted to have all funds for health projects deposited with the Federal Ministry of Finance, where they would be subject to control by his Ministry. Later, he agreed that the Public Health Joint Service should be the action agency for three health projects, the Federal Ministry of Health for one project, and the Provincial Nazirates of Health, under the supervision of the Federal Ministry, for the remainder. The funds for the projects assigned to the Ministry and Nazirates of Health were to be channeled via the Federal Ministry. In fact, the Federal Ministry has neither the staff nor the facilities to operate as an action agency. Health matters have always been provincial functions. Although all of the Federal Ministers seek to extend their control over matters which are or may be considered within their fields, whether they are constitutionally Federal functions or not, the Minister of Health is one of the most persistent of these and possibly the least qualified to exercise such control. He is a problem not only to LARC but to the Federal Government as well. Mr. Pitt Hardacre's remarks on the present occasion indicate the Federal Government's intention to sidetrack the Minister as much as possible without actually removing him from the scene. His removal would present the Government with a political problem in that the Minister of Health is the only Fezzanese in the Cabinet, and there appear to be no other Fezzanese, acceptable to the Prime Minister or the King, available to replace him. As indicated in Paragraph 35 of the minutes of the twelfth meeting (Enclosure No. 2) the solution in regard to LARC's health projects was that they wound up in the hands of the Joint Service, except for one project in health training on which the World Health Organization will in effect be the action agency.

Comments on the twelfth meeting:

1. The work of the Prime Minister's ad hoc unemployment committee (paragraph

4 and following) was reported in TOICA A-600 of May 15, 1956, and the relevant documents are transmitted as Appendix I, Enclosure No. 2 to this despatch.

2. The so-called "additional program" referred to in Paragraph 7 and listed in the May 14 program status report (Appendix II), Enclosure No. 2) represents the projects approved for earmarking subsequently to the original (L£ 4,273,600) program and prior to the receipt of formal notification of the amount of additional U. S. economic aid to be granted in fiscal 1955/56.

3. The projects discussed in paragraph 9, and following, were reported in TOICA A-573 of May 7, 1957. Sample copies of the project agreements were transmitted to ICA/W by letter. The problem of the designation of the Joint Services as action agencies for these and other LARC projects (see also paragraphs 30 through 33) has been complicated by the "constitutional question" referred to in Paragraph 31. The question is how far the Federal Government can go in achieving and maintaining Federal control over what have been primarily Provincial functions. In the fields of agriculture and water development, health, and education (except higher education), the Federal Government has no organization capable of the actual direction of operations. Constitutionally, health and general education (below university level) are fields in which the Federal Government exercises legislative and supervisory powers while the Provincial Administrations exercise executive powers. The Provincial Administrations have the only operating departments and technical competence (such as it is) in all of the above fields. For both technical and psychological reasons, the operating staffs of the Joint Services in those fields should work closely with the corresponding departments of the Provincial Administrations. However, as in the case, noted above, of the Minister of Health, the Federal Government desires to use the Joint Services (and LARC funds) as a device for exercising control and supervision over the Provincial departments. In this process it is probable that to some extent the working relationships between the Provincial departments and the Joint Services may suffer, since the Joint Services will be identified with the Federal Government and some resentment of them as Federal instruments may be aroused in the Provincial Administrations. It may be necessary for the Joint Services to enter into additional agreements with the Provincial departments in order to establish truly joint operations.

4. The project for the change in location of the Cyrenaican Nazirate of Agriculture from Barce to Benghazi (Paragraph 39 and following) which involves the construction of administration buildings and housing, was approved as a desirable step for the improvement of the functioning of an important Provincial department without (in theory) establishing a precedent for construction by LARC of other Government offices and quarters. While it would be desirable to avoid the expenditure of LARC funds on such projects, the fact remains that the budgetary resources of both the Federal Government and the Provincial Administrations, including the British budgetary grant, are too restricted to provide either adequate facilities or adequate staff (both qualitatively and quantitatively) for efficient functioning. The Joint Services, which will not be restricted by Libyan personnel standards and rates of pay, can ease the situation as far as staff is concerned, but in view of the difficulties in the implementation of

development projects which have arisen from the above inadequacies, it will probably be necessary for LARC to provide, in some instance, facilities which might more properly be financed from Libyan ordinary budgets.

5. The recent developments in regard to the Tripoli electric-power system were reported in Despatch No. 370 of May 1, 1956 and Despatch No. 395 of May 26, 1956 (WEEKA 21). As reported, the final valuation of the fixed assets of the electric-power system was L£ 1,600,000 ($4,480,000). The Libyan Government had agreed to pay 70 percent of this amount, or L£ 1,120,000 ($3,136,000) to the Società Nazionale Sviluppo of Milan, Italy, for a 70 percent interest in the system, and the SNS's 30 percent share was to be represented by 5 percent preference shares with a face value of L£ 480,000 ($1,344,000). Since L£ 700,000 ($1,960,000) was paid to SNS on the date of transfer of title (February 1, 1956), the Libyan Government had to pay in final settlement approximately L£ 420,000 ($1,176,000) plus interest at 4½ percent on the unpaid balance for the period from February 1 to the date of final payment. The final payment was made in dollars from LARC's Guaranty Trust Account in New York and at the current bank rate for dollars worked out at $1,164,046 for the principal and $19,517.70 for the interest.

The agreement between the Libyan Government and SNS (listed as an attachment to Appendix III, Enclosure No. 2 to this despatch) reportedly provided that SECI (Società Elettrica Commerciale Industriale, SNS's subsidiary, which actually owned and managed the system) should retain title to its current assets and be responsible for the current liabilities as of the date of transfer of title. Consequently the new management organization, now called the Tripoli Electricity Undertaking, started its career with no operating capital and no fuel or other stores. LARC agreed to lend the Corporation L£ 150,000 for operating capital and approximately L£ 200,000 for the purchase of the stores on hand February 1. The finally agreed price of the stores was L£ 178,554 with interest charges of L£ 3,000.926. LARC's total investment in the electric-power system therefore consists of approximately L£ 1,127,000 (approximately $3,130,000) in grant funds, and L£ 331,555 ($928,354) in loans.

The two attachments (Appendices A and B) mentioned in Appendix III of Enclosure No. 2 were in fact not attached to the original letter from Shaglouf to LARC's Executive Director. The Embassy-USOM will continue to attempt to obtain them.

For the Ambassador:

Rodger P. Davies
Counselor of Embassy

cc: Benghazi
USOM/L

Enclosures: All

1. Minutes of the Eleventh Meeting
2. Minutes of the Twelfth Meeting

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